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## **Labour Market Policy in the Crisis: The UK in Comparative Perspective**

### *Abstract*

*This paper examines labour market policy measures adopted to counteract the effects of the current economic crisis, comparing the UK policy response to reactions of governments in other developed countries. It shows that despite having entered the crisis with one of the least developed packages of policies to support the unemployed of any country, the UK has done unusually little to bolster provision in this field, despite the social and economic benefits increased investment would bring. In the light of this, the paper critically revisits the UK's status since the late 1990s as a labour market policy 'success story'.*

### **Introduction**

Until the real economy effects of the recent financial crisis began to bite, unemployment *per se* had become something of a non-issue in British social policy. With policy attention having shifted to the problem of inactivity, governmental initiatives in the labour market were more focused on supporting apparently inexorable employment growth by coaxing a variety of 'workless' groups back into work with a mixture of carrots (financial incentives to make work pay and individualised job search assistance) and sticks (increasingly conditional benefit regimes for all working-age recipients of social transfers) (Clasen, 2007). This was in stark contrast to many of the UK's European neighbours, where weaker employment performances had kept both unemployment benefit provision and more resource-intensive support for labour market reintegration higher on political agendas, albeit increasingly accompanied by a focus on 'activation' (Kohnle-Seidl and Eichhorst, 2008).

With unemployment having risen somewhat faster in the UK than in many countries since 2008, it would not be unreasonable to expect that the gulf that had opened between it and many of its principal trading partners in the priority accorded to support for the unemployed might at present be beginning to narrow. This paper suggests, however, that to date the reality is rather different. Reviewing the main measures that have been put in place to cope with the labour market effects of the current economic crisis across a selection of comparable countries, it shows that the UK continues to be conspicuous in its relative policy inaction in this field. Not only did the UK enter the current recession with the least supportive policies for the unemployed of any Western European (EU15) country, but its government has furthermore proved among the most reluctant to improve these, even temporarily, in the light of the current economic conditions.

The paper is structured in three sections. Section 1 provides a brief overview of the labour market policy profiles of selected developed countries at the onset of the recession, emphasising the economic as well as social consequences of variations in the generosity of benefit provisions for the unemployed. Section 2 then reviews the permanent and temporary modifications to the eligibility and entitlement parameters of these systems that have been enacted since 2008, as well as related changes in short-time working or 'partial unemployment' regulations and discretionary spending on active labour market policies. Section 3 concludes with some critical 'reflections

from the crisis' on the UK's status as an apparent labour market policy success story since the late 1990s.

### **The labour market policies of developed countries at the onset of the crisis**

Though the period since New Labour's first election victory in 1997 has in some respects seen considerable change in British welfare policy, it has also been a period that has confirmed and consolidated the UK's already established position as a labour market policy low spender. As figure 1 shows, of the most developed countries only the USA invests less public resources, as a percentage of national wealth, in labour market policy measures. Already a low spender in 1997, the UK has furthermore reduced its efforts since then, albeit by less than many other countries.

#### **Figure 1 about here**

Labour market policy expenditure is of course partly driven by high unemployment rates, through an automatic ratchet effect on benefit expenditures as well as inevitable political pressures for the expansion of discretionary measures. In countries such as Belgium, France or Germany, higher levels of investment in labour market policy partly reflect these countries' relatively poorer labour market performance, at least in terms of job creation, over the last decade. British miserliness in this policy area cannot be explained away entirely by low problem pressures, however. In 2007 unemployment, measured according to the ILO definition, was around a third lower than the British rate in both Denmark and the Netherlands, and yet levels of investment in labour market policy were in each country around four times as great.

The limited commitment to supporting the unemployed in the UK comes out even more clearly with respect to the unemployment benefit system. The cross-national comparison of unemployment benefit generosity raises a number of methodological problems, but the OECD composite replacement rate indicator<sup>1</sup> at least gives some suggestion of how much income security is on average provided under the arrangements prevailing in different national contexts. Figure 2 reveals that by 2007 the UK benefit system had become the least generous of all the most developed countries, with average replacement rates having fallen below even those of Greece and the USA in the period since the late 1990s. As both Oxfam and the TUC have recently pointed out, nothing has been done under New Labour to slow the decline in the level of unemployment benefit relative to average earnings that began under the previous Conservative administrations (Oxfam, 2009; TUC, 2009). A comparative perspective highlights that the UK is furthermore out of step with other countries in this regard. The only countries where there have been more significant declines in unemployment benefit generosity over the last decade are Denmark and the Netherlands, where average replacement rates were previously 8 to 9 times higher than in the UK, and where they remain considerably above the OECD average. By contrast, in most developed countries replacement rates have remained broadly stable since 1997 despite falling unemployment, and in a few traditionally less generous countries such as Italy and Portugal, average replacement rates have actually been considerably increased in recent years.

#### **Figure 2 about here**

In the 1990s the dominant labour market policy discourse in the developed world presented unemployment benefit mainly as a ‘passive’ policy instrument, emphasising the potentially negative impact of benefit provision on the functioning of labour markets (e.g. OECD, 1994). Things have changed somewhat since the early 2000s, with the increasing interest – especially in Europe – in the notion of ‘flexicurity’, which emphasises the role of adequate benefit provision combined with job-search assistance and training measures in enhancing labour market mobility and job-matching, and more broadly in facilitating the sustainable development of more flexible labour markets (Viebrock and Clasen, 2008; Jørgensen and Konhshøj Madsen, 2007). Comparative empirical research confirms these and other efficiency effects of good unemployment insurance – such as the creation of positive incentives for skill acquisition – at least as convincingly as its disincentive effects (Sjöberg, 2008). Without even speaking of the social impact of such limited state support for the unemployed, it is therefore far from clear that Britain’s restrictive benefit regime (see box 1) is economically virtuous.

Box 1 about here

With the onset of the economic crisis there has been renewed attention to another positive economic function of unemployment benefits that underscores this conclusion: their role as ‘automatic stabilisers’ of consumer demand in the face of a sharp economic downturn. While taxes on income and earnings also play a significant role in stabilising household demand during recessions (Dolls *et al.*, 2009), research from the USA has suggested that unemployment insurance benefits are far more efficient in this respect (Aurbach and Feenberg, 2000). The very low level of unemployment benefits in the UK has thus deprived the British economy of a natural fillip during the current recession, and meant that far more work has been required of discretionary fiscal stimulus measures than in countries like France or Germany (Coats *et al.*, 2009a, p. 47). Furthermore, in these countries and others the policy response to the current crisis has included not only the ‘active’ measures that have been centre-stage in the UK, but also a series of improvements and additions to their already more generous benefit provisions.

### **Labour market measures since 2008**

In Britain, the main message of the government regarding labour market policy in the recession has been that little really needs to change in the established policy approach. The 2008 pre-budget report thus argued that “reforms to Jobcentre Plus and Jobseeker’s Allowance (JSA) since the late 1990s have provided a strong regime that will enable the UK to meet the challenges of rising unemployment” (HM Treasury, 2008, p. 89). A welfare reform bill, proposing to further extend job search requirements, enhance and personalise benefit conditionality and deepen the involvement of private and voluntary providers in labour market reintegration that is currently being piloted in the Flexible New Deal, was published in January 2009, and continues its progress through Parliament largely unchallenged, despite having been, in Frank Field’s words, “designed for the land of the never-ending boom” (Field, 2009).

Initiatives that have been more explicitly designed with recessionary times in mind, meanwhile, have focussed almost entirely on those measures classified as ‘active’ by

the OECD. Increased investment has been pledged to help Jobcentre Plus cope with an upsurge in job seekers, and an employment subsidy scheme paying employers a one-off 'golden hello' upon hiring those who have been in receipt of JSA for 6 months was unveiled in January 2009. The 2009 budget additionally pledged that from January 2010 all under-25s who have been unemployed for 12 months will be guaranteed a job, training placement or skill-training for at least 6 months through the 'Future Jobs Fund'. This ambitious measure was however not costed, and was accompanied with a promise – or threat? – that the government will work with future placement providers to “determine how participation in one of these options could be made mandatory” (HM Treasury, 2009, p. 96).

With or without such self-consciously 'tough' policy framing, increased investment in active labour market policies such as employment subsidies and personalised job search assistance has been a feature of governments' response to the crisis across the developed world (see European Employment Observatory, 2009, pp. 12-16; Mandl and Salvatore, 2009, pp. 18-22 for full reviews). The Spanish government has for example introduced a measure providing employers with a subsidy of up to the maximum unemployment benefit rate payable for three years upon the recruitment of an unemployed worker; a similar but slightly less generous scheme has been launched in Greece. In France, a temporary social contribution holiday has been implemented for all very small firms (with less than 10 workers) hiring in 2009, a budget has been released for 100 000 extra targeted subsidised employment contracts in 2009 and a pre-existing measure known as the Professional Transition Contract (*Contrat de Transition Professionnelle*, CTP), which provides intensive help with job-search over a 12 month period during which the beneficiary is also entitled to higher benefit payments (see below), has been extended to new groups of workers and additional geographical areas. The Swedish government has invested considerable extra resources in the public employment service to improve personalised job search assistance, and earmarked an equivalent sum to finance an employment subsidy for all so-called 'new start jobs'. The Dutch government have created 33 regional mobility centres where firms, trade unions and job-placement companies will cooperate to ensure the rapid professional integration of unemployed workers. These mobility centres are one of a range of measures proposed by a specialty appointed crisis team set up to “make use of the economic crisis as an opportunity to modernise the labour market” (EIRO, 2009).

Comparing the magnitude of these measures, or the broader stimulus packages in which they have been developed, is difficult (Coats *et al.* 2009b; Saha and Von Weizsäcker, 2009). There is, however, little evidence that countries like the UK with weaker automatic stabilisers have adopted considerably more ambitious discretionary stimulus packages (Dolls *et al.*, 2009). Of the developed countries, the UK is furthermore the one that has concentrated most of its economic stimulus on generalised tax cuts, through the temporary VAT reduction announced in late 2008, to the detriment of a more balanced package with greater emphasis on employment measures (Coats *et al.*, 2009b). Neither the scale nor the content of the active labour market policies introduced by the British government are exceptional in comparative perspective, therefore.

Where Britain is an outlier, however, is in the almost complete absence of any improvement of 'passive' income support measures in its package of labour market

policy measures. Improvements in benefits for lower-income families with children (Child Tax Credit) and for the elderly (advanced uprating of the Basic State Pension and additions to winter fuel payments) have been announced, an already planned in the level of Child Benefit was brought forward, and the budget for Social Fund crisis loan scheme has been increased. But beyond a modest increase in the maximum level of statutory redundancy pay, the cost of which is supported directly by employers, nothing has been done on a national level to improve benefits for those becoming unemployed..

In other developed countries the story has been very different. One instrument on which much government activism has focused has been schemes to subsidise short time working or ‘partial unemployment’. Under these arrangements firms can reduce the working hours of employees for a given period with a collective fund (often the general unemployment insurance fund) covering a proportion of the worker’s salary and/or social insurance contributions for the un-worked days. These instruments were in existence prior to the crisis in many European countries, but have been adapted and extended since its onset. In Germany, the structural short-time working measure was extended from 6 to 18 months in ‘stimulus package 1’; subsequently it has been further extended, and the level of government support increased. The Austrian short-time working scheme has also been extended, from 1 year to 18 months, with possibilities for further prolongation under specific circumstances. In Belgium, the amounts of compensation payable under the partial unemployment scheme for blue-collar workers have been increased from 60% to 70% (for childless couples) and 65% to 75% (for single people and couples with children) of the worker’s salary. A new temporary unemployment scheme, also applicable to white collar workers and replacing 70 to 75% of lost income for a set period, has also been introduced. These examples are merely typical of the reforms in this area, which have been adopted in many developed countries (see Table 1).

Short-time working measures have the obvious political advantage of preventing a rise in the unemployment rate, as beneficiaries usually retain their employee status. They have been criticised, however, both for potentially slowing adjustment by locking people into declining jobs and as benefiting mainly ‘insiders’ in secure employment in large firms (Carone *et al.*, 2009). With respect to the latter point, it is however notable that in many countries the adaptation of short-time working arrangements in the current crisis has seen them extended to temporary or agency workers with fixed-term employment contracts and/or to smaller firms that have not benefited from such measures in the past. Furthermore, in many countries there are now financial incentives or even obligations for short-time working to be combined with retraining initiatives so that these measures do not hinder, and even contribute to, labour market adjustment.

#### **Table 1 about here**

Though they have been less common than temporary or partial unemployment measures, a number of developed countries have also, or alternatively, made selective improvements to support for the fully unemployed (see Table 1). These range from marginal measures, such as the additional child supplement for recipients of the ALG II unemployment assistance benefit in Germany, through to more significant modifications such as the easing of eligibility conditions for unemployment insurance

in France and Sweden or the increase in the maximum reference salary for the calculation of unemployment insurance benefits in Belgium. Even the USA, which traditionally rivals Britain in reluctance to provide adequate income support to the out-of-work, included an exceptional unemployment insurance entitlement extension of 13 to 20 weeks in the American Recovery and Reinvestment Act.

Once again, these measures do not necessarily benefit only the better organised and most politically influential sections of the workforce. In France, for example, the modifications in the most recent unemployment insurance agreement have mainly benefited the most precarious workers by reducing the minimum contribution period for unemployment insurance entitlement from 6 months to 4 months. It is estimated that in 2009 some 100,000 workers will gain an entitlement to unemployment insurance that they would not have had under pre-existing rules (*Les Echos*, 2009). Furthermore, the French government has also introduced a new one-off 500 Euro payment for young people without a sufficient work history to access unemployment insurance. Finally, the aforementioned CTP, which offers 80% replacement of their previous gross salary and intensive help with labour market reorientation for 1 year to workers made redundant for economic reasons, has been extended to workers in companies of all sizes, having previously only applied to those in firms with over 1000 employees.

### **Whither the British ‘success story’?**

In recent years the UK has tended to be presented as a labour market policy ‘success story’, not least by the British government itself. This was of course possible mainly thanks to the output legitimacy accorded by strong employment growth and low (open) unemployment rates, but it was also underpinned by an assertion that UK labour market policy had been moved onto a post-ideological plane, allowing policy making in this area to concentrate on the pragmatic search for and application of ‘best practice’ solutions to the reconciliation of social justice and economic dynamism and the balancing of rights and responsibilities. Such ideas were implicit in the concept of the ‘third way’, in which so much recent labour market policy making in the UK has been framed (Finn and Schulte, 2008).

If the recent rise in unemployment in the UK can perhaps be explained away with reference to the global crisis, the British labour market policy response to the crisis reveals how superficial these claims really were. As the short review above has demonstrated, expansions to short-time working subsidy schemes and extensions of unemployment benefit coverage and generosity have been a feature of the response to the crisis in almost every developed country except the UK, despite the fact that in almost all these countries the automatic stabilisation effects of existing benefit arrangements were already far stronger. There is little that is pragmatic in the apparent refusal to countenance an even temporary improvement in benefits for the unemployed and vulnerable employed, making the UK particularly vulnerable to what the European Commission (2009, p. 35) have identified as a general risk of a “self-fulfilling spiral of low aggregate demand, gloomy expectations, high uncertainty, low investment, high (long-term) unemployment and low consumption” should governments pay insufficient attention to labour market issues.

Proposals to increase unemployment benefits and introduce a national scheme to support short-time working arrangements have been put forward by some policy commentators in Britain (Coats *et al.*, 2009b; Bell and Blanchflower, 2009); the latter measure has also been advocated by both trade unions and employers. Such calls have provoked remarkably little serious debate between the main political parties, however<sup>2</sup>. As regards unemployment benefits, even in the face of a severe recession the government and opposition seem to be competing with each other mainly on how tightly they can turn the screws on the jobless, with the Conservatives countering the government's welfare reform bill with their own proposals for a benefit system in which working-age claimants will have to 'earn their benefits' (Conservative Party, 2008; 2009). This political climate also explains why the government's otherwise sensible Future Jobs Fund programme for the long-term unemployed had to be accompanied with the workfare rhetoric when unveiled last year.

Everything suggests that, whatever its initial electoral pay-off, the main impact of New Labour's discursive move to the centre on social and labour market policy issues has been to shift the centre-of-gravity of labour market politics decisively rightward. Quantitative opinion research carried in 2003 revealed a 'hardening' of popular attitudes towards working-age welfare claimants and the poor in the UK, particularly among those on the political left (Sefton, 2004). More qualitative research carried out recently, as part of the government's welfare reform consultations, reportedly underscored this conclusion, even though the research had been conducted with the economic crisis already gathering pace (*The Guardian*, 2008). If the state of the UK's public finances is the justification for the fact that little is being done to improve unemployment benefits in the current crisis, it is in such attitudes that we arguably find the ultimate explanation.

The image of the UK as a labour market policy success story was always implicitly or explicitly comparative, usually based on an apparently flattering contrast with its large neighbours like France or Germany, where employment growth was stifled by high labour costs and overly generous benefit schemes co-managed by the trade unions and employers associations mindful only of the well-being of their core constituencies of older workers and large firms. In light of their reactions to the current crisis we might also temper these standard criticisms of the continental model. The speed and ease with which emergency benefit measures have been agreed and implemented, often on the back of negotiations between the social partners, show the enduring virtues of institutionalised social dialogue and compromise. And attempts both to broaden these measures to more vulnerable groups of workers and to articulate them with labour market reintegration initiatives demonstrate that the continental model is not necessarily condemned to being passive and biased towards 'insiders'. After a decade of trying to export its model, perhaps it is the moment for the UK government to realise that it may itself have some lessons to learn.

## **Conclusion**

This paper has sought to place the measures introduced by the UK government to deal with the labour market effects of the financial crisis in a comparative perspective. It has shown that despite the very limited potential for the UK's pre-existing labour market policies to absorb a socio-economic shock of this magnitude, the government has done relatively little in this field relative to its counterparts in other developed



countries. The active labour market policies it has introduced will be beneficial, and are broadly comparable in aim and ambition to similar measures introduced elsewhere. With respect to benefit policies for the actually or potentially unemployed workers, however, the weakness of the British response is truly striking. While governments elsewhere have extended their often more generous benefit provision for the fully and/or partially unemployed, action of this kind appears entirely at odds with the tenor of current UK policy debates.

British policy makers in fact appear quite unique in their dogged adherence to the 1990s mantra that adequate benefits for working age people are the enemy of employment. Even before the onset of the current crisis this perspective was coming to be seen as overly narrow. With the recession, other 'active' socio-economic functions of 'passive' benefit provision, such as their role in maintaining consumer demand, are attracting renewed attention in international policy debates. Reforms currently being implemented elsewhere also underscore that policies can be simultaneously protective and competitiveness-enhancing, as Danish and Dutch labour market policy development in the last 10 years had already amply demonstrated, and as the flexicurity concept has emphasised. If flexicurity is the coming paradigm for labour market policy in developed countries, the UK's response to the crisis in this area only underlines how much of a laggard it risks becoming. The glimmer of hope is that as the crisis unfolds further, and the negative social and economic effects of the UK's low protection labour market policy model become clearer, the anti-benefit consensus around which the politics of British labour market policy has revolved for the last decade might at least begin to fracture.

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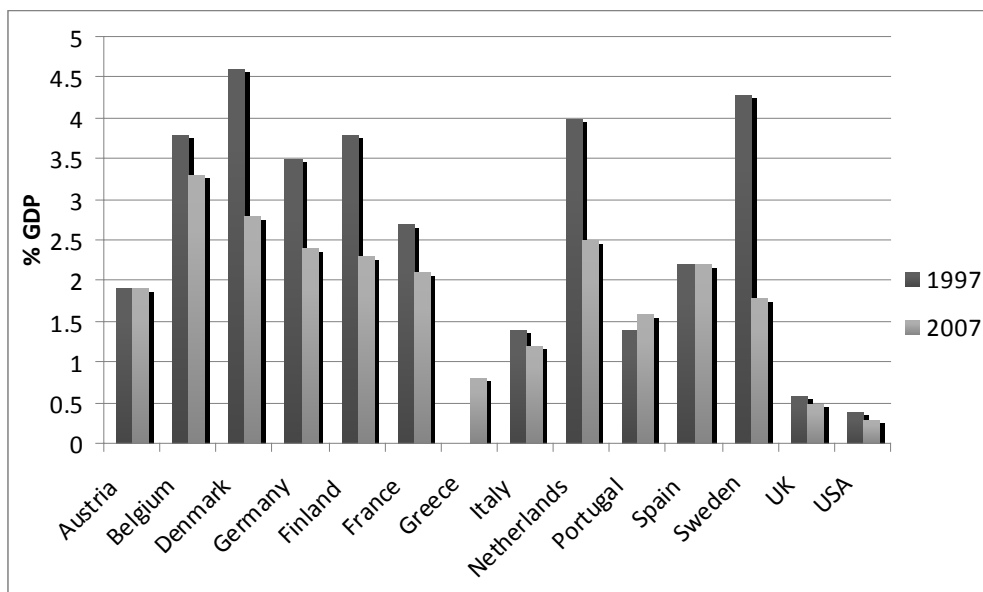
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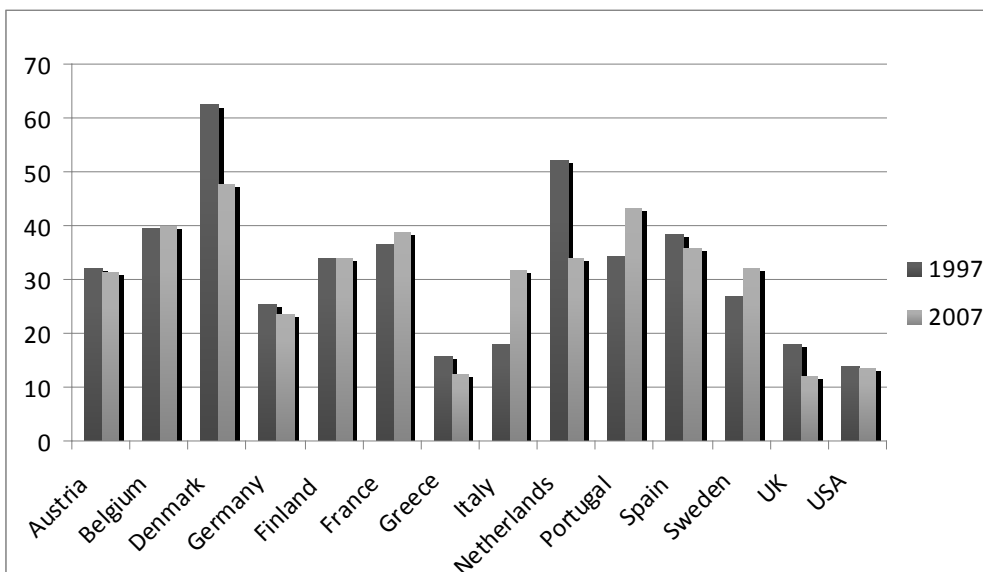
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**Figure 1: Public Expenditure on Labour Market Policy**



Source: OECD Long Time-Series for Public Expenditure on Labour Market Programmes

**Figure 2: Average Unemployment Benefit Replacement Rates**



Source: OECD Benefits and Wages Database

### Box 1: Jobseeker's Allowance

The British unemployment benefit, Jobseeker's Allowance (JSA), has two elements. The contribution-based element lasts for six months, for those who have made sufficient National Insurance (social insurance) contributions. After six months, or for those without enough past contributions, there is an income-based element which is means-tested against family income. Amounts of JSA are flat-rate and not related to previous earnings. It is currently paid at £64.30 per week (less for the under-25s), though the income-based elements include additions for dependents. In both cases claimants must be available for, and actively seeking, work.

**Table 1: New Income Protection Measures for Partly or Wholly Unemployed Workers in Developed Countries**

Country	Adaptations to short-time working subsidies	Adaptations to benefits for the unemployed
Austria	Extension of maximum duration of short-time working payments	Extension of unemployment support allowance, a scheme compensating individual reductions in working time that permit a new worker (from within defined unemployed target groups) to be hired
Belgium	Increased compensation rates for partial unemployment New compensation scheme for temporary unemployment	Increase in maximum wage basis for the calculation of unemployment insurance benefits
Denmark	More flexible conditions for use of subsidised job sharing scheme	-
France	Extension of maximum duration of compensated partial/technical unemployment Increased compensation rates for partial/technical unemployment	Easier access to the benefit system for those with short working records New 500€ payment for young unemployed without entitlement to unemployment insurance Extension of Professional Transition Contract, providing 80% replacement of previous income to eligible workers
Germany	Extension of maximum duration of short-time working payments Increased government contribution to firms	100€ benefit supplement for non contributory unemployment benefit (ALG II) recipients beneficiaries with children
Greece	New scheme for the protection of employees on reduced working hours in medium-size companies	-
Italy	Extension of Wage Guarantee Fund (CIG) to cover previously excluded firms New support for partially unemployed workers not covered by CIG from unemployment insurance fund	-
Netherlands	Extension of scheme for short-time working to cover firms in difficulty due the economic crisis (expired March 2009) New scheme to compensate partial unemployment (introduced May 2009)	-
Portugal	New Employment Qualification Programme for Workers with reduced hours	Temporary increase in maximum duration of entitlement to non-contributory 'social benefit for unemployment' scheme
Spain	Extension of unemployment benefit entitlement to partially unemployed	New six month training benefit for those whose unemployment benefit entitlement has expired (proposed measure)
Sweden	-	Reduction in contribution conditions for unemployment insurance entitlement
USA	-	Extension to maximum period of unemployment insurance entitlement

Sources: Compiled from Glassner and Galgoczi (2009); European Employment Observatory (2009); European Monitoring Centre on Change <http://www.eurofound.europa.eu/emcc/index.htm>; Mandl and Salvatore (2009)

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<sup>1</sup> The OECD composite replacement rate indicator is calculated as an unweighted average of 18 different gross replacement rate calculations based on combinations of different household types, different unemployment durations and different levels of prior earnings. The measure covers contributory and non-contributory means-tested benefits, but excludes both housing-related and child-related benefits. For details, see Martin (1996).

<sup>2</sup> A wage subsidy scheme called ProAct has however been introduced in Wales on a decision of the Welsh Assembly Government.